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Financial Statements and Report of Independent  
Certified Public Accountants

**South Tahoe Public Utility District**

June 30, 2009

Comb. RPT.  
11/30/09

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## **Report of Independent Certified Public Accountants**

Board of Directors  
South Tahoe Public Utility District  
South Lake Tahoe, California

We have audited the accompanying basic financial statements of South Tahoe Public Utility District ("the District") as of and for the year ended June 30, 2009, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2008 financial statements and, in our report dated October 2, 2008; we expressed an unqualified opinion on the respective basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America and the State Controller's Minimum Audit Requirements and Reporting Guidelines governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Tahoe Public Utility District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The financial statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2008 from which such summarized information was derived.

*Grant Thornton LLP*

Reno, Nevada  
November 12, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**South Tahoe Public Utility District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the year ended June 30, 2009**

**Financial Highlights**

The District has long been addressing the aging water system infrastructure, including undersized waterlines. A major water infrastructure replacement program was started in the early 90's, and since then more than \$50 million of infrastructure has been placed into service. With advances in asset management tools, the District now utilizes a strategic set of criteria to determine construction priorities. In fiscal year 2008-09, the District continued the replacement program, and a total of \$5.1 million was spent on waterline replacement and upsizing during the fiscal year. The Tata Lane, Al Tahoe (phase 1), Julie Lane, and Granite Mountain Waterlines were completed during the year and the remaining projects are expected to be complete by Fall 2009:

<u>Project Area</u>	<u>Total Lineal Feet</u>	<u>Spent as of June 30, 2009</u>	<u>Estimate to Complete</u>
Al Tahoe (phase 2)	5,163	\$ -0-	\$980,500
Sonora	6,874	788,900	883,000

The waterline replacement program improves water quality, quantity, and fire suppression capabilities. As a public service, each project also includes installation of fire hydrants at 500-foot intervals.

The District continues to expend funds for work related to MTBE contamination. To receive these funds the District went to trial against the manufacturers, refiners, and distributors of MTBE beginning in September 2001. The defendants settled with the District for \$69.1 million after the jury found them liable for the contamination, and further, that two of the defendants acted with malice. Settlement occurred in August 2002 before the jury's determination of compensatory and punitive damages. The District only settled when it believed the amount offered, less the litigation costs of \$28 million, was adequate to fully restore the water system. A District ordinance restricts the settlement money uses. Per the ordinance, the money must be used for MTBE-related costs such as well treatment, securing alternate potable water sources, and improving the distribution system. The remaining settlement funds of \$10.5 million appear in the balance sheet shown as restricted cash and cash equivalents and restricted investments in the Water Enterprise Fund.

The Sewer Enterprise Fund is also investing heavily in its infrastructure. In fiscal year 2008-09 \$8.2 million was invested in sewer infrastructure improvements. Construction continues on a major project to replace the final effluent pump station, originally installed in the 1950's. The pump station is nearing the end of its useful life. As of June 30, 2009, \$8.2 million was spent on this project which is scheduled to be complete by November 2009. Fiscal Year 2009-10 will mark the beginning of a three-year project to replace the sewer treatment head works at an estimated cost of \$13 million. The District is currently working with the California State Water Resources Control Board to secure low interest funding through the State Revolving Fund program.

- Net assets of the District increased \$7.1 million or 3.8%.
- During the year more than \$15 million was invested in sewer and water infrastructure.
- The Sewer and Water Enterprise Funds' income is \$1.8 million and \$1.1 million, respectively.
- Operating revenue is up 3.6%.
- Operating expenses are down 5.5% and came in 17.9% under budget.

# South Tahoe Public Utility District

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2009

### Financial Highlights - Continued

- In fiscal year 2008-09, the District was awarded three separate competitive grants totaling more than \$7.5 million. These grants will fund, among other things, waterline replacements, water meter installations, and water source arsenic treatment.

### Overview of the Basic Financial Statements

The District's basic financial statements are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. An important part of the basic financial statements is the accompanying notes, which provide the users additional information required by generally accepted accounting principles (GAAP). Preceding the basic financial statements is Management's Discussion and Analysis, which is required supplementary information to the basic financial statements.

The Balance Sheet includes the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. The Statement of Revenues, Expenses and Changes in Net Assets account for revenue, expenses, and capital contributions and calculates the change in net assets. Over time, increases or decreases in net assets serve as a key indicator of the District's financial position. The Statement of Cash Flows provides the details on the changes in cash and cash equivalents during the year. By contrast the Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets are prepared on an accrual basis, meaning revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

### Net Assets

The condensed Statement of Net Assets below shows the District is investing in capital assets and reducing its debt. Overall, the District's financial health is improving year over year as indicated by the increase in net assets.

Net Assets (in thousands)				
June 30				
	2009	2008	Change	Change
Current and other	\$ 45,578	\$ 48,851	(\$3,273)	(6.7%)
Restricted MTBE settlement funds	10,528	11,332	( 804)	(7.1%)
Capital assets	180,024	170,786	9,238	5.4%
<b>Total assets</b>	<b>\$236,130</b>	<b>\$230,969</b>	<b>\$5,161</b>	<b>2.2%</b>
Debt outstanding	\$ 27,885	\$ 29,533	(\$1,648)	(5.6%)
Other liabilities	15,568	15,834	( 266)	(1.7%)
<b>Total liabilities</b>	<b>\$ 43,453</b>	<b>\$ 45,367</b>	<b>(\$1,914)</b>	<b>(4.2%)</b>
Invested in capital assets, net of related debt	\$152,139	\$147,205	\$4,934	3.4%
Restricted for MTBE costs	10,528	11,332	( 804)	(7.1%)
Restricted for security deposits	275	235	40	17.0%
Unrestricted	29,735	26,830	2,905	10.8%
<b>Total net assets</b>	<b>\$192,677</b>	<b>\$185,602</b>	<b>\$7,075</b>	<b>3.8%</b>

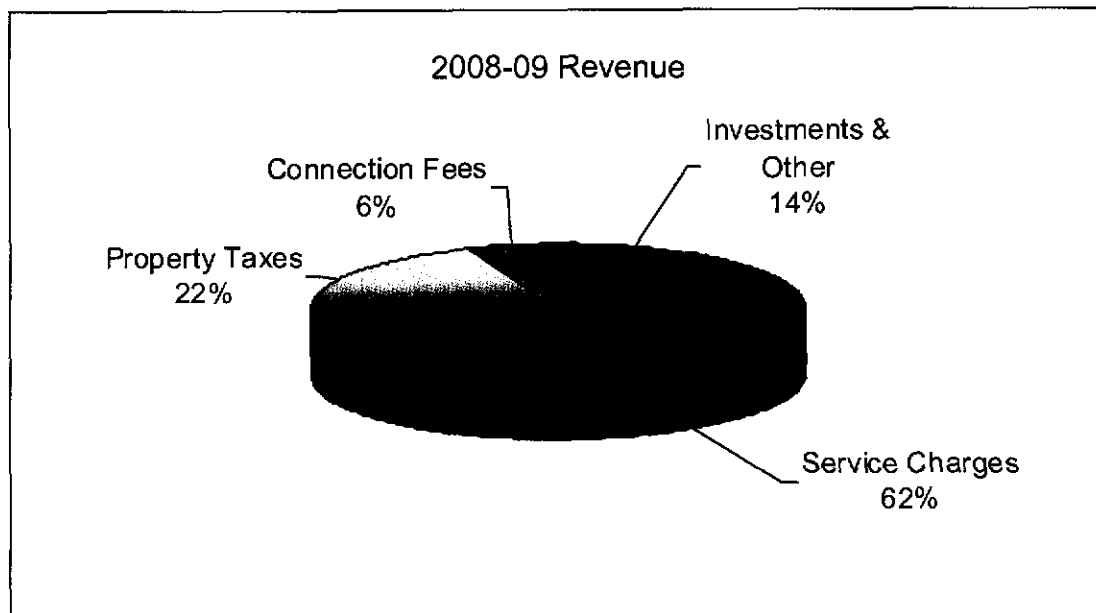
# South Tahoe Public Utility District

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2009

### Revenue and Expenses

The District finances sewer and water operations through user charges, property tax receipts, and other income. Total revenue for fiscal year 2008-09 is \$30.3 million, down \$312,000 or 1% from the prior year. The 2009 service charge revenue increase is \$905,000 or 5.0% greater than the prior year, reflecting a 4% rate change and limited area growth as restricted by the Tahoe Regional Planning Agency (TRPA). Property tax revenue is up \$264,000, or 4.1%, an improvement over the prior year gain of 1.9%. Investment income is down 27.2% due to lower investment rates. A slowdown in local development has caused connection fees to decrease 8.2%. Although other non-operating revenue is down 43.9%, it will increase significantly in 2009-10 when the District receives the grant funding mentioned previously in the financial highlights.



	Revenues (in thousands)		Change	Change
	June 30 2009	2008		
Service charges	\$18,894	\$17,989	\$ 905	5.0%
Connection fees	1,847	2,012	( 165)	(8.2%)
Other	337	353	( 16)	(4.5%)
Total operating revenue	21,078	20,354	724	3.6%
Property taxes	6,668	6,404	264	4.1%
Investments	1,649	2,265	( 616)	(27.2%)
Other	875	1,559	( 684)	(43.9%)
Total non-operating revenue	9,192	10,228	(1,036)	(10.1%)
Total revenue	\$30,270	\$30,582	(\$ 312)	(1.0%)

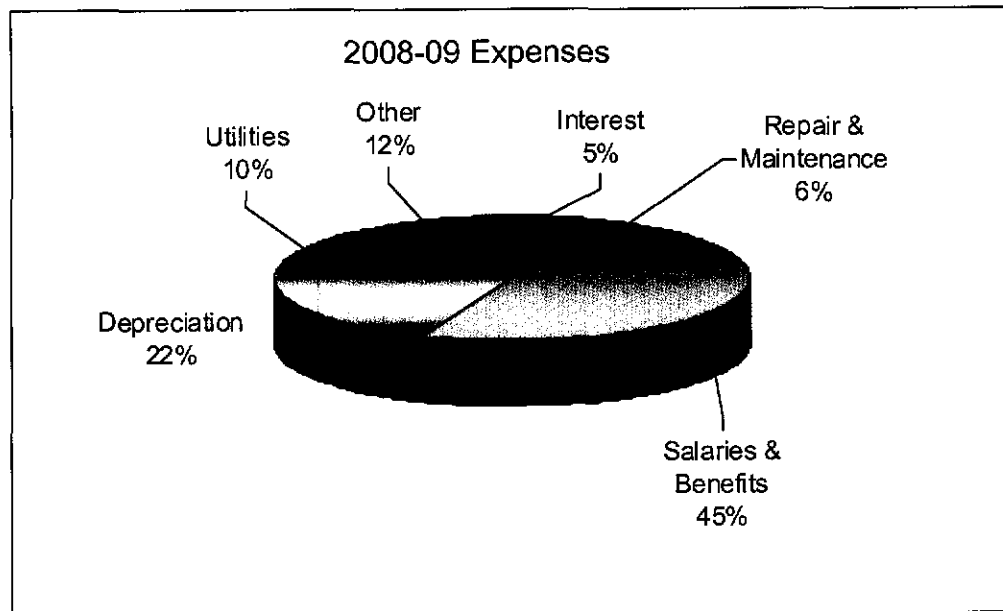
# South Tahoe Public Utility District

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2009

### Revenue and Expenses - Continued

Total operating expenses for the current year are \$25.7 million, down \$1.5 million from the prior year. The largest decrease is \$.4 million in utility expenditures due to weather conditions and booster station pumping requirements. Depreciation expense is down \$.3 million reflecting fully depreciated assets in the prior year. Employee salaries and benefits decreased \$.2 million due to improved workers compensation rates and staff hours charged to capitalized projects. Professional services decreased \$.3 million reflecting a reduction in consultant utilization. The remaining \$.3 million reduction is a combination of repair and maintenance and other miscellaneous operating expense savings. Non-operating expenses increased by less than 1% from the prior year.



	Expenses (in thousands)			
	June 30			
	2009	2008	Change	Change
<u>Operating expenses:</u>				
Salaries and benefits	\$12,393	\$12,633	(\$ 240)	(1.9%)
Depreciation	6,099	6,429	( 330)	(5.1%)
Utilities	2,633	3,051	( 418)	(13.7%)
Repair and maintenance	1,632	1,937	( 305)	(15.7%)
Other	2,975	3,192	( 217)	(6.8%)
Total operating expenses	25,732	27,242	(1,510)	(5.5%)
<u>Non-operating expenses:</u>				
Interest expense	1,346	1,353	( 7)	(.5%)
Other	196	184	12	6.5%
Total non-operating expenses	1,542	1,537	5	.3%
Total expenses	\$27,274	\$28,779	\$(1,505)	(5.2%)



# South Tahoe Public Utility District

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

For the year ended June 30, 2009

### Revenue and Expenses - Continued

The fiscal year 2008-09 income before capital contributions is \$3.0 million as compared to the budgeted income of \$3.9 million. This result is primarily from a decline in local development which directly impacts connection fees. The District uses income before capital contributions to self-fund capital improvements and to repay capital project debt.

### Changes in Net Assets (in thousands)

	June 30			
	2009	2008	Change	Change
Beginning net assets	\$185,602	\$183,271	\$2,331	1.3%
Income before contributions	2,996	1,804	1,192	66.0%
Capital contributions	4,079	527	3,552	674.0%
Changes in net assets	7,075	2,331	4,744	203.5%
Ending net assets	\$192,677	\$185,602	\$7,075	3.8%

### Capital Assets

The District's investment in its sewer and water systems is \$180 million at the end of the fiscal year net of depreciation. During the year, more than \$15 million was spent on new infrastructure, equipment and land acquisition. \$5.1 million was spent on replacing waterlines. As noted in the highlights, these new waterlines improve system reliability, water pressure, and fire flow capability. The South Upper Truckee well in Christmas Valley was completed with \$2.9 million total invested. The replacement of the Final Export Pumps in the Sewer Enterprise Fund is a major project with more than \$5.9 million invested this year.

### Capital Assets (net of depreciation, in thousands)

	Sewer		Water		Total	
	2009	2008	2009	2008	2009	2008
Land and easements	\$ 22,843	\$ 22,836	\$ 844	\$ 844	\$ 23,687	\$ 23,680
Water rights	-	-	1,668	1,668	1,668	1,668
Plant and equipment	77,462	79,022	61,444	54,560	138,906	133,582
Construction in Progress	12,605	7,030	3,158	4,825	15,763	11,855
Total	\$112,910	\$108,888	\$67,114	\$61,897	\$180,024	\$170,785

For additional information on Capital Assets, see Note C in the Notes to Financial Statements.

**South Tahoe Public Utility District**

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED**

**For the year ended June 30, 2009**

**Debt Administration**

The District prefers to avoid funding capital improvement projects with debt, but will do so when necessary to keep service rates at reasonable levels. Fitch Ratings gives the District an AA rating and Standard and Poor's upgraded the District from an A+ to an AA- rating. These excellent ratings demonstrate the sound financial management of the District. At year-end, the District had \$27.9 million in bonds and notes outstanding as detailed below. The District's financial forecast anticipates four more borrowings over the next ten years. As always, grant opportunities and low interest subsidized loans are pursued by the District.

**Outstanding Debt at Year End**  
*(in thousands)*

	June 30,	
	2009	2008
<u><b>Sewer Enterprise Fund:</b></u>		
Certificates of Participation (secured by sewer revenue)	\$12,165	\$12,760
Installment sale agreement (secured by sewer revenue)	9,490	9,823
Total sewer enterprise fund	21,655	22,583
<u><b>Water Enterprise Fund:</b></u>		
Revenue bonds and notes payable (secured by water revenue)	3,863	4,410
Installment sale agreement (secured by water revenue)	2,368	2,540
Total water enterprise fund	6,231	6,950
Total debt	\$27,886	\$29,533

For additional information on Outstanding Debt, see Note F in the Notes to Combined Financial Statements.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's elected officials, customers, investors, and creditors with an assessment of the District's financial condition and an accounting of the public's money. If you have questions about this report or need more financial information, contact the Chief Financial Officer, South Tahoe Public Utility District, 1275 Meadow Crest Drive, South Lake Tahoe, CA 96150.

## **BASIC FINANCIAL STATEMENTS**

**South Tahoe Public Utility District**

**BALANCE SHEET**

**Proprietary Funds**

**June 30, 2009**

**(With comparative totals for June 30, 2008)**

ASSETS	Business-type Activities Enterprise Funds		Total	
	Sewer	Water	2009	2008
Current assets:				
Cash and cash equivalents	\$ 14,330,874	\$ 211,055	\$ 14,541,929	\$ 17,758,434
Investments	1,042,437	537,036	1,579,473	6,238,941
Accounts receivable, net of allowance for doubtful accounts	618,084	1,128,027	1,746,111	1,241,558
Due from governmental agencies	367,468	3,664,288	4,031,756	799,363
Property tax receivable	6,311,491	-	6,311,491	6,286,854
Other current assets	891,613	362,889	1,254,502	1,076,533
Total current assets	23,561,967	5,903,295	29,465,262	33,401,683
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	967,965	967,965	874,126
Certificate of deposit	100,000	175,000	275,000	235,000
Investments	-	9,559,574	9,559,574	16,411,077
Total restricted assets	100,000	10,702,539	10,802,539	17,520,203
Long-term accounts receivable	408,486	-	408,486	79,787
Due from governmental agencies	15,749	15,749	31,498	71,498
Investments	9,981,055	5,142,574	15,123,629	8,815,544
Other deferred expenses	257,926	16,116	274,042	294,742
Capital assets	189,397,463	88,606,768	278,004,231	262,810,086
Less accumulated depreciation	(76,486,981)	(21,492,906)	(97,979,887)	(92,024,373)
Total capital assets	112,910,482	67,113,862	180,024,344	170,785,713
Total noncurrent assets	123,673,698	82,990,840	206,664,538	197,567,487
Total assets	\$ 147,235,665	\$ 88,894,135	\$ 236,129,800	\$ 230,969,170
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable	\$ 1,128,785	\$ 1,013,766	\$ 2,142,551	\$ 2,369,096
Unearned revenue	7,453,247	885,906	8,339,153	9,146,773
Accrued expenses	1,033,877	861,539	1,895,416	1,223,329
Accrued interest payable	211,097	86,046	297,143	315,609
Compensated absences - current	585,402	409,251	994,653	905,027
Long-term debt - current	958,001	754,307	1,712,308	1,648,285
Total current liabilities	11,370,409	4,010,815	15,381,224	15,608,119
Noncurrent liabilities:				
Compensated absences	1,125,708	773,171	1,898,879	1,873,601
Long-term debt	20,696,523	5,476,245	26,172,768	27,885,076
Total noncurrent liabilities	21,822,231	6,249,416	28,071,647	29,758,677
Total liabilities	33,192,640	10,260,231	43,452,871	45,366,796
Net assets:				
Invested in capital assets, net of related debt	91,255,958	60,883,310	152,139,268	147,205,534
Restricted for MTBE costs	-	10,527,539	10,527,539	11,332,020
Restricted for security deposits	100,000	175,000	275,000	235,000
Unrestricted	22,687,067	7,048,055	29,735,122	26,829,820
Total net assets	114,043,025	78,633,904	192,676,929	185,602,374
Total liabilities and net assets	\$ 147,235,665	\$ 88,894,135	\$ 236,129,800	\$ 230,969,170

The accompanying notes are an integral part of this statement.

**South Tahoe Public Utility District**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Proprietary Funds**

**For the year ended June 30, 2009  
(With comparative totals for the year ended June 30, 2008)**

	<b>Business-type Activities Enterprise Funds</b>		<b>Total</b>	
	<b>Sewer</b>	<b>Water</b>	<b>2009</b>	<b>2008</b>
Operating revenues:				
Charges for sales and services:				
Service charges	\$ 9,723,796	\$ 9,170,093	\$ 18,893,889	\$ 17,989,037
Connection and service fees	1,260,684	586,310	1,846,994	2,012,435
Other operating income	136,138	200,785	336,923	352,641
Total operating revenues	<u>11,120,618</u>	<u>9,957,188</u>	<u>21,077,806</u>	<u>20,354,113</u>
Operating expenses:				
Salaries, wages and employee benefits	7,503,738	4,888,779	12,392,517	12,632,661
Depreciation and amortization	4,127,848	1,970,934	6,098,782	6,428,947
Utilities	1,887,223	746,274	2,633,497	3,051,521
Repairs and maintenance	603,928	1,027,820	1,631,748	1,936,648
Other operating expenses	1,748,327	1,227,165	2,975,492	3,191,607
Total operating expenses	<u>15,871,064</u>	<u>9,860,972</u>	<u>25,732,036</u>	<u>27,241,384</u>
Operating income (loss)	<u>(4,750,446)</u>	<u>96,216</u>	<u>(4,654,230)</u>	<u>(6,887,271)</u>
Nonoperating revenues (expenses):				
Tax revenue	6,647,132	20,539	6,667,671	6,404,070
Investment earnings	994,650	654,472	1,649,122	2,264,933
Aid from governmental agencies	1,003	343,527	344,530	1,111,171
Other nonoperating income	115,638	414,869	530,507	448,190
Interest expense	(984,975)	(360,866)	(1,345,841)	(1,353,088)
Other expense	(173,915)	(22,495)	(196,410)	(183,917)
Total nonoperating revenues	<u>6,599,533</u>	<u>1,050,046</u>	<u>7,649,579</u>	<u>8,691,359</u>
Income before contributions	1,849,087	1,146,262	2,995,349	1,804,088
Capital contributions	<u>480,857</u>	<u>3,598,349</u>	<u>4,079,206</u>	<u>527,652</u>
INCREASE IN NET ASSETS	2,329,944	4,744,611	7,074,555	2,331,740
Total net assets - beginning	<u>111,713,081</u>	<u>73,889,293</u>	<u>185,602,374</u>	<u>183,270,634</u>
Total net assets - ending	<u>\$ 114,043,025</u>	<u>\$ 78,633,904</u>	<u>\$ 192,676,929</u>	<u>\$ 185,602,374</u>

The accompanying notes are an integral part of this statement.

**South Tahoe Public Utility District**

**STATEMENT OF CASH FLOWS  
Proprietary Funds**

**For the year ended June 30, 2009  
(With comparative totals for the year ended June 30, 2008)**

	Business-type Activities Enterprise Funds		Total	
	Sewer	Water	2009	2008
Cash flows from operating activities:				
Cash received from customers	\$ 10,037,440	\$ 9,082,572	\$ 19,120,012	\$ 20,060,085
Other income	136,138	200,785	336,923	352,641
Cash paid to employees for services	(7,445,429)	(4,832,184)	(12,277,613)	(12,371,688)
Cash paid to suppliers	(4,673,533)	(2,299,631)	(6,973,164)	(5,759,570)
Cash provided by (used in) operating activities	(1,945,384)	2,151,542	206,158	2,281,468
Cash flows from non-capital financing activities:				
Tax revenue	6,622,495	20,539	6,643,034	6,206,514
Aid from governmental agencies	16,663	735,901	752,564	1,375,444
Cash provided by non-capital financing activities	6,639,158	756,440	7,395,598	7,581,958
Cash flows from capital and related financing activities:				
Purchase of capital assets	(8,150,094)	(7,187,319)	(15,337,413)	(10,908,357)
Repayment of debt	(928,837)	(767,054)	(1,695,891)	(1,536,810)
Proceeds from issuance of debt	-	-	-	10,000,000
Financing costs	-	-	-	(52,650)
Interest paid on notes payable	(973,594)	(370,013)	(1,343,607)	(1,179,322)
Contributed capital	480,857	312,018	792,875	527,652
Cash used in capital and related financing activities	(9,571,668)	(8,012,368)	(17,584,036)	(3,149,487)
Cash flows from investing activities:				
Interest and dividends on investments	739,390	610,224	1,349,614	2,048,512
Purchase of investments	(7,582,500)	(13,122,500)	(20,705,000)	(34,353,296)
Proceeds from sale of investments	9,527,600	16,687,400	26,215,000	34,005,000
Cash provided by investing activities	2,684,490	4,175,124	6,859,614	1,700,216
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,193,404)	(929,262)	(3,122,666)	8,414,155
Cash and cash equivalents, beginning (including \$766,519 and \$107,607 reported in restricted assets for sewer and water, respectively)	16,524,278	2,108,282	18,632,560	10,218,405
Cash and cash equivalents, ending (including \$967,965 reported in restricted assets for water)	\$ 14,330,874	\$ 1,179,020	\$ 15,509,894	\$ 18,632,560

**South Tahoe Public Utility District**

**STATEMENT OF CASH FLOWS - CONTINUED**  
**Proprietary Funds**

**For the year ended June 30, 2009**  
**(With comparative totals for the year ended June 30, 2008)**

	Business-type Activities Enterprise Funds		Total	
	Sewer	Water	2009	2008
Reconciliation of operating loss to cash provided by operating activities:				
Operating income (loss)	\$ (4,750,446)	\$ 96,216	\$ (4,654,230)	\$ (6,887,271)
Adjustments to reconcile operating loss to cash provided by operating activities:				
Depreciation and amortization	4,127,848	1,970,934	6,098,782	6,428,947
(Increase) decrease in accounts receivable	(408,702)	(404,549)	(813,251)	(686,696)
(Increase) decrease in other assets	(197,748)	19,779	(177,969)	(32,655)
Increase (decrease) in accounts payable	(560,962)	334,417	(226,545)	1,996,114
Increase (decrease) in unearned revenue	(538,338)	(269,282)	(807,620)	745,309
Increase in other payables	382,964	404,027	786,991	717,720
Cash provided by (used in) operating activities	<u>\$ (1,945,384)</u>	<u>\$ 2,151,542</u>	<u>\$ 206,158</u>	<u>\$ 2,281,468</u>
Non-cash capital and related financing activities:				
Disposal of capital assets	<u>\$ 110,889</u>	<u>\$ 32,378</u>	<u>\$ 143,267</u>	<u>\$ 866,569</u>
Non-cash investing activities:				
Increase in fair value of investments	<u>\$ (255,260)</u>	<u>\$ (91,854)</u>	<u>\$ (347,114)</u>	<u>\$ (180,965)</u>

The accompanying notes are an integral part of this statement.

**South Tahoe Public Utility District**  
**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting principles of South Tahoe Public Utility District (the "District") conform to generally accepted accounting principles applicable to governmental-type organizations. The following is a summary of the District's significant accounting policies:

**1. Reporting Entity**

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's Board of Directors. Management has determined the District to be a single reporting entity for financial reporting purposes by applying the criteria set forth in Statement of Governmental Accounting Standards No. 14, *The Financial Reporting Entity*. This criteria requires the reporting entity to have a separate elected governing body, that it be a legal separate entity and fiscally independent.

Based on the foregoing criteria, the following funds are included in the District's annual report and are combined for financial reporting purposes:

- Sewer Enterprise Fund
- Water Enterprise Fund

**2. Basis of Accounting**

The financial records of the District are maintained on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred.

In compliance with Statement of Governmental Accounting Standards No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the District has opted not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions, and Accounting Research Bulletins issued after November 30, 1989.

**3. Budget**

The District develops and adopts an annual budget; however, this budget is a management tool and is not a legal requirement.

**4. Cash and Cash Equivalents**

The District considers cash and all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The District's cash and cash equivalents consist of cash, deposits in financial institutions, money market accounts, certificates of deposit and pooled investments. Cash and cash equivalents, invested for specific requirements such as deposits for construction projects, are segregated as restricted cash and cash equivalents. The District records its investments in the Local Agency Investment Fund (LAIF) at fair value. Changes in fair value are reported as investment income in the statement of revenues, expenses and changes in net assets.

Deposits of cash and cash equivalents must comply with the District's Investment Policy which complies with the California Government Code. The policy requires deposits in financial institutions to be FDIC insured or fully collateralized.



**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**5. Investments**

Investments consist of unrestricted and restricted federal agency notes, corporate notes and commercial paper. The District records its investments at fair value. Changes in fair value are reported as investment income in the statement of revenues, expenses and changes in net assets.

Restricted investments consist of Methyl Tertiary Butyl Ether (MTBE) legal settlements and judgments restricted by District ordinance since May 2002.

The Chief Financial Officer invests monies not required for the immediate operations of the District, in accordance with the District's Investment Policy.

**6. Reserves**

The District uses the term "reserves" to refer to all cash and investments belonging to the District at any given time. The District's policy is to have reserves to adequately provide for infrastructure replacement, economic uncertainties, loss of revenue sources, local disasters and catastrophic events, cash flow requirements and unfunded mandates (i.e. new regulatory requirements.) In addition, adequate reserves are an essential part of sound financial management and reflect positively on the District's credit standing. Reserves are based on management's estimates for the cash needs of the District and estimates may vary from actual.

The Reserve Policy adopted by the Board of Directors establishes the minimum and maximum amount of reserves for operations, capital, self-insurance and rate stabilization and when to use reserves.

**7. Capital Assets**

Capital assets are recorded at cost except in those cases where facilities are donated by private developers or special assessment districts (SAD). In the latter cases, assets are recorded at fair market value. Assets are capitalized when they are expected to have useful lives greater than three years and the original cost is more than \$2,000. All depreciation is computed on the straight-line method over the following useful lives:

	<u>Years</u>
<u>Sewer Enterprise</u>	
Subsurface lines	10-70
Sewage collection facilities	5-40
Sewage treatment	3-40
Sewage disposal	5-100
General plant and administration	3-50
<u>Water Enterprise</u>	
Source of supply	10-40
Pumping plant	12-30
Water treatment plant	4-35
Transmission and distribution	20-74
General plant	3-20

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**8. Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick leave, which will be paid to employees upon separation from the District's service. The cost of vacation and sick leave is recorded in the period accrued.

**9. Pension Plan**

The California Public Employees Retirement System (PERS) values assets using a smoothing technique. PERS determines the expected value of assets (using the assumed actuarial rate of return) and adds one-fifteenth of the difference between the actual market value of assets and the expected value of assets to equal the asset valuation. In addition, the value of assets will not be less than 80% or greater than 120% of the actual market value of assets. The PERS actuarial methodology serves to diminish short term market value fluctuations on employer contribution rates.

**10. Self-Insurance**

Self-insurance liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on complex factors, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, other significant allocated or unallocated claim adjustment expenses, the frequency of claims, and other economic and social factors. The unpaid claims and claim adjustment expenses liability is included in accrued expenses.

**11. Capital Contributions**

Capital contributions are grant monies received from the federal and state government in aid of construction, and assets contributed by SAD or real estate developers.

**12. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**13. Operating and Non-operating Revenues**

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations of sewer and water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**14. Restricted Resources**

The District's policy is to first apply restricted resources when an expense is incurred for purposes, which both restricted and unrestricted net assets are available.

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**15. Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. This data reflects certain reclassifications that conform to classifications in the current year and have no effect on net assets.

**16. New Accounting Pronouncements**

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and financial reporting standards for the costs and obligations associated with pollution cleanup efforts. The District implemented GASB Statement No. 49 during the year ended June 30, 2009. The adoption of the statement did not have a significant impact on the financial position or results of operations of the District.

In June 2007, the GASB Board issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for periods beginning after June 15, 2009. The District is currently evaluating the impact of the adoption of this pronouncement.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Standards on Auditing Standards*, establishes accounting and financial reporting standards for related party transactions, subsequent event, and going concern considerations. The District implemented GASB Statement No. 56 during the fiscal year ended June 30, 2009. The adoption of the statement did not have a significant impact on the financial position or results of operations of the District.

**NOTE B - CASH AND INVESTMENTS**

Cash and investments as of June 30, 2009 consist of the following:

Cash and cash equivalents:

Unrestricted:

Cash on hand	\$ 2,250
Unrestricted deposits in financial institutions	639,850
Deposits in El Dorado County Treasury	424,788
Deposits in California Asset Management Program (CAMP)	181,816
Deposits in Local Agency Investment Fund (LAIF)	13,293,225
	<u>14,541,929</u>

Restricted:

Deposits in LAIF	<u>967,965</u>
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Investments:

Unrestricted:

Agency notes	13,669,801
Corporate notes	3,033,302
	<u>16,703,103</u>

Restricted:

Certificates of deposit	275,000
Agency notes	6,893,828
Corporate notes	2,665,746
	<u>9,834,574</u>

Total cash and investments	<u>\$42,047,571</u>
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# South Tahoe Public Utility District

## NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

### NOTE B - CASH AND INVESTMENTS - Continued

#### 1. Investments Authorized by the District's Investment Policy

The table below identifies investment types authorized by the District's Investment Policy. The table also identifies certain provisions of the District's Investment Policy that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum in One Issue
U.S. Treasury obligations	5 years	None	None
Federal agency and instrumentalities			
Callable	5 years	25%	None
Mortgage-backed pass-through and collateralized mortgage obligations	5 years	20%	None
Other	5 years	None	None
U.S. corporate debt	3 years	30%	10%
Negotiable certificates of deposit	5 years	30%	10%
Commercial paper	270 days	25%	10%
Bank deposits	N/A	20%	10%
Bankers' acceptances	180 days	40%	10%
LAIF	N/A	None	None
CAMP	N/A	None	None
Money market funds	N/A	20%	10%
El Dorado County pool	N/A	None	None

#### 2. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One way the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities. A portion of the portfolio is always maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for the District's operations and capital improvement program.

In addition, the Investment Policy limits purchase of securities to those with maturities of five years or less. Longer investments require prior authorization of the Board of Directors. Certain investments that are highly sensitive to interest rate fluctuations are prohibited by the Investment Policy.

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE B - CASH AND INVESTMENTS - Continued**

**2. Interest Rate Risk - Continued**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Investment Maturities (in years)			
	Fair Value	Less than 1	1-2	3-5
Cash and deposits	\$ 917,100	\$ 917,100	\$ -	\$ -
Pooled investment funds	14,867,794	14,867,794	-	-
Agency notes	20,563,630	4,607,911	13,949,468	2,006,251
Corporate notes	5,699,047	949,418	2,732,055	2,017,574
	<u>\$42,047,571</u>	<u>\$21,342,223</u>	<u>\$16,681,523</u>	<u>\$4,023,825</u>

There are currently 36.35% of Federal agency securities subject to call provisions. As provided in the Investment Policy, the District should target a maximum allocation of 25% to callable Federal agency securities.

**3. Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Investment Policy and the actual rating as of year end for each investment type.

Investment Type	Minimum Rating	Rating as of Year End			
		AAA	AA+	A+	Not Rated
Cash and deposits	N/A	\$ -	\$ -	\$ -	\$ 917,100
Pooled investment funds	N/A	-	-	-	14,867,794
Agency notes	N/A	20,563,630	-	-	-
Corporate notes	N/A	4,034,716	714,914	949,417	-
		<u>\$24,598,346</u>	<u>\$714,914</u>	<u>\$949,417</u>	<u>\$15,784,894</u>

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE B - CASH AND INVESTMENTS - Continued**

**4. Concentration Risk**

Concentration risk is the risk of loss attributed to the magnitude of an investor's investment in a single issuer. To limit concentration risk, the District places a 10% limit on investments in any one non-governmental issuer. Investments exceeding 5% of the total investments, excluding external investment pools, are Federal Home Loan Bank notes, 29%; Federal National Mortgage Association notes, 8%; Freddie Mac, 9% and Corporate Notes 10%.

**5. Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the depositor will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The District's Investment Policy requires the financial institution to either collateralize the deposits or cover them with Federal deposit insurance. The District's cash and deposits, totaling \$700,391 as of June 30, 2009, in financial institutions are secured by federal depository insurance for \$485,000 with the remainder covered by collateral held by an agent of the pledging bank in the District's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the investor will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. To eliminate investment custodial credit risk, the District's Investment Policy requires that all cash and securities in the District's portfolio be held in safekeeping in the District's name by a third party bank trust department, acting as agent for the District, under the terms of a custody agreement.

**6. Pooled Investment Funds**

Pooled investment funds consist of cash deposited in the interest-bearing El Dorado County Treasurer's Pooled Surplus Investment Fund, LAIF, and CAMP.

The fair value of the pooled investments deposited in the El Dorado County Treasurer's Pooled Surplus Investment Fund and CAMP are equal to the value of the pool shares, and the fair value of the pooled investments deposited in the California state pool is greater than the fair value of the pool shares.

The District's deposits are maintained in recognized pooled investment funds under the care of oversight agencies. The El Dorado County Treasurer's Investment Fund has a Treasury Policy Oversight Committee in addition to annual audits. The LAIF in addition to being part of a Pooled Money Investment Account with oversight provided by the Pooled Money Investment Board and an in-house Investment Committee also has oversight by the Local Agency Investment Advisory Board. The CAMP is a trust under the oversight of the CAMP Board of Trustees.

Because the District's deposits are maintained in recognized pooled investment funds under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits is required. The District's deposits in the Funds are considered to be highly liquid. The El Dorado County Treasurer, LAIF, and CAMP representatives have indicated there are no derivatives in the pools as of June 2009. LAIF does invest in structured notes and asset-based securities.

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2008**

**NOTE C - CAPITAL ASSETS**

The summary of the changes in capital assets is as follows:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
<u>Capital assets not being depreciated:</u>				
Land and easement	\$ 23,680,414	\$ 6,573	\$ -	\$ 23,686,987
Water rights	1,668,308	-	-	1,668,308
Construction in progress	<u>11,854,912</u>	<u>8,860,348</u>	<u>(4,952,452)</u>	<u>15,762,808</u>
Total capital assets not being depreciated	<u>37,203,634</u>	<u>8,866,921</u>	<u>(4,953,452)</u>	<u>41,118,103</u>
<u>Capital assets being depreciated:</u>				
Plant and equipment	225,606,452	11,422,944	(143,268)	236,886,128
Less: Accumulated depreciation	<u>(92,024,373)</u>	<u>(6,098,782)</u>	<u>143,268</u>	<u>(97,979,887)</u>
Total capital assets being depreciated, net	<u>133,582,079</u>	<u>5,324,162</u>	<u>-</u>	<u>138,906,241</u>
Capital assets, net	<u>\$170,785,713</u>	<u>\$14,191,083</u>	<u>(\$4,953,452)</u>	<u>\$180,024,344</u>

Depreciation expense for the year ended June 30, 2009 totaled \$6,098,782.

Construction in progress as of June 30, 2009 consisted of the following:

Alpine County Master Plan	\$ 1,295,525
Arsenic Study/Treatment Facility	1,207,557
B-Line Revegetation	372,895
BMP Projects	192,829
Booster Station, Twin Peaks	757,099
Collection Sys Master Plan	832,023
DVR Emergency Storage Basin	146,188
DVR Environmental Impact Report	705,605
Final Export Pumps, Replace	8,410,131
GIS, Plant	103,767
Tank, Angora	195,702
Waterline, Sonora	788,873
Wildwood Interceptor	235,721
Other	<u>518,893</u>
	<u>\$15,762,808</u>

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE D - ACCOUNTS RECEIVABLE**

Short-term accounts receivable at June 30, 2009 consists of the following:

	<u>Sewer</u>	<u>Water</u>
Customer receivables	\$325,968	\$1,003,252
Other receivables	<u>325,443</u>	<u>160,210</u>
	651,411	1,163,462
Allowance for doubtful accounts	<u>(33,327)</u>	<u>(35,435)</u>
Accounts receivable, net of allowance	<u>\$618,084</u>	<u>\$1,128,027</u>

Long-term accounts receivable at June 30, 2009 consists of the following:

	<u>Sewer</u>
Other receivables	<u>\$408,486</u>

Other receivables are submitted to the County of El Dorado for collection through a special property tax assessment or if unpaid, ultimately through foreclosure on the property.

**NOTE E - CHANGES IN LONG-TERM LIABILITIES**

During the year ended June 30, 2009, the following changes occurred in long-term liabilities:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>June 30, 2009</u>
<u>Long-term liabilities:</u>				
Installment agreement	\$ 2,539,602	\$ -	\$ (172,054)	\$ 2,367,548
Water revenue bonds	4,410,398	-	(547,394)	3,863,004
Sewer revenue bonds	12,760,000	-	(595,000)	12,165,000
Sewer installment agreement	<u>9,823,361</u>	<u>-</u>	<u>(333,837)</u>	<u>9,489,524</u>
Total debt	<u>\$29,533,361</u>	<u>\$ -0-</u>	<u>(\$1,648,285)</u>	<u>\$27,885,076</u>
Current debt	<u>\$ 1,648,285</u>			<u>\$ 1,712,308</u>
Long-term debt	<u>\$27,885,076</u>			<u>\$26,172,768</u>
Compensated absences	<u>\$ 2,778,628</u>	<u>\$1,562,337</u>	<u>(\$1,447,433)</u>	<u>\$ 2,893,532</u>
Current portion	<u>\$ 905,027</u>			<u>\$ 994,653</u>
Long-term portion	<u>\$ 1,873,601</u>			<u>\$ 1,898,879</u>



**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2009**

**NOTE E - CHANGES IN LONG-TERM LIABILITIES - Continued**

At June 30, 2009, the long-term liabilities are as follows:

	<u>June 30, 2009</u>	<u>Due Within One Year</u>	<u>Long-Term</u>
<u>Long-term liabilities:</u>			
Sewer installment agreement	\$ 9,489,524	\$ 348,001	\$ 9,141,523
Water installment agreements	2,367,548	181,913	2,185,635
Water revenue bonds	3,863,004	572,394	3,290,610
Sewer revenue bonds	<u>12,165,000</u>	<u>610,000</u>	<u>11,555,000</u>
Total long-term liabilities	<u>\$27,885,076</u>	<u>\$1,712,308</u>	<u>\$26,172,768</u>
Compensated absences	<u>\$ 2,893,532</u>	<u>\$ 994,653</u>	<u>\$ 1,898,879</u>

**NOTE F - LONG-TERM DEBT**

Long-term debt at June 30, 2009 consists of the following:

1999 Installment Sale Agreement with LaSalle Bank National Association secured by a first lien against all water revenues, due May 20, 2019, payable \$156,573 semi-annually, including interest at 5.65%. The original amount of the debt was \$4,965,000 and was used for water infrastructure improvements.

\$ 2,367,548

Water Revenue Refunding Bonds, secured by a first lien against all water revenues. Maturity dates range between August 1, 2007 and 2014, interest payments are made semi-annually at interest rates ranging from 4%-4.4% with principal paid annually. The balance is recorded net of unamortized cost of \$241,996 at June 30, 2009. The refunding was done for \$7,850,000 and was used to repay the 1994 Installment Sale Agreement with LaSalle Bank National Association, which funded water infrastructure improvements.

3,863,004

Sewer Revenue Certificates of Participation, secured by a first lien against all sewer revenues. Maturity dates range between June 1, 2009 and 2024, interest payments are made semi-annually at interest rates ranging from 3.25%-4.875% with principal paid annually. The original amount of the debt was \$15,000,000 and is being used for sewer infrastructure improvements.

12,165,000

2007 Sewer Installment Sale Agreement with Union Bank of California, secured by a first lien against all sewer revenues. Due August 1, 2027, payable \$371,425.72 semi-annually, including interest at 4.199%. The original amount of the debt was \$10,000,000 and is being used for sewer infrastructure improvements.

9,489,524

27,885,076

(1,712,308)

Less: Current principal maturities

Total long-term notes payable

\$26,172,768

# South Tahoe Public Utility District

## NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

### NOTE F - LONG-TERM DEBT - Continued

Principal and interest maturities of long-term debt are as follows:

Years ending June 30,	Principal	Interest	Total
2010	\$ 1,759,914	\$ 1,224,784	\$ 2,984,698
2011	1,830,104	1,153,555	2,983,659
2012	1,896,517	1,077,632	2,974,149
2013	1,979,214	996,950	2,976,164
2014	2,063,260	910,982	2,974,242
2015-2019	8,246,813	3,325,976	11,572,789
2020-2024	8,606,243	1,680,788	10,287,031
2025-2029	1,745,007	88,675	1,856,409
	<u>28,127,072</u>	<u>10,459,342</u>	<u>38,609,141</u>
Unamortized refunding gain	(241,996)	-	-
	<u>\$27,885,076</u>	<u>\$10,459,342</u>	<u>\$38,609,141</u>

Interest charged on debt for the year ended June 30, 2009 was \$1,278,271.

Debt covenants for the installment sale agreement to LaSalle Bank National Association and Union Bank of California, the Water Revenue Refunding Bonds and the Sewer Revenue Certificates of Participation include thresholds for minimum net water and sewer revenue and maximum outstanding debt obligations. The District is in compliance with the requirements as of June 30, 2009.

The Water Revenue Refunding Bonds, Sewer Revenue Certificates of Participation, and Union Bank of California installment sale agreement are subject to federal arbitrage regulations.

### NOTE G - PENSION PLAN

In 2003, the District joined the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan on a prospective basis. Employees were not given service credit for prior years of service with the District. Before joining PERS, District employees participated in "The South Tahoe Public Utility District Pension Plan," a single-employer public employee defined contribution pension plan (the "Defined Contribution Plan"). All contributions to both PERS and the Defined Contribution Plan are governed by Memorandums of Understanding (MOUs) between the employees and the District.

In accordance with the MOUs, no contributions are being made to the Defined Contribution Plan subsequent to June 19, 2003. In addition, no new participants are eligible to enroll in the Defined Contribution Plan. The Defined Contribution Plan terminated as of June 30, 2008. The majority of plan assets were distributed as of June 30, 2008. An additional distribution to four current employees and one terminated employee was completed on July 8, 2008.

# South Tahoe Public Utility District

## NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

### NOTE G - PENSION PLAN - Continued

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, California 95814.

State statute establishes CalPERS member and employer contribution rate requirements. The CalPERS member contribution requirement is 8% of annual covered salary for the 2.7% at age 55 benefit formula. The District MOU's require the District to fund 2.4855% of the member contributions on behalf of its CalPERS members, with members funding the remaining 5.5145% of their annual covered salary for the year ending June 30, 2009. The District funds the actuarially determined remaining amount necessary to fund member benefits. The required employer contribution rate for the year ended June 30, 2009 was 13.029%. For the year ended June 30, 2009, the amount contributed by the District on behalf of the employees was \$210,203. CalPERS members vest immediately in the member contribution and vest in the employer contribution after five years of CalPERS membership.

For the fiscal years ended June 30, 2009, 2008 and 2007, the District's actual annual CalPERS cost of \$1,204,423, \$1,170,142 and \$958,098, respectively, was equal to the District's required contributions. The required contributions were determined in a 2007 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions include (a) 7.75% investment rate of return (net of administrative expenses); (b) salary increase projections of 3.25% to 14.45% depending on entry age, and duration of service; (c) 3.25% payroll growth (d) annual inflation 3% and (e) 2% postretirement benefit increases. The PERS unfunded liabilities are being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2007 was 17 years. As of June 30, 2009, the District is participating in the 2.7% at age 55 risk pool and the disclosure below is for that risk pool.

#### PERS Funding Status:

Valuation Date June 30	Actuarial Valuation of Assets	Actuarial Accrued Liability	Unfunded Liabilities	Funding Ratio	Annual Covered Payroll	Unfunded Liabilities as a % of Payroll
2007	\$ 1,362,317	\$1,627,025,950	\$264,966,633	83.7%	\$376,292,121	70.4%
2006	1,069,546,974	1,280,157,040	210,610,066	83.6%	304,898,179	69.1%
2005	729,556,809	872,346,612	142,789,803	83.6%	203,995,039	70.0%

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE H - DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan (the "457 Plan") created in accordance with Internal Revenue Code Section 457. The 457 Plan permits the employees to defer a portion of their salary until future years. A third party administrator maintains deferrals in a trust capacity. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Participants can elect to contribute up to 100% of their annual compensation, generally not to exceed \$15,500.

The 457 Plan assets, totaling \$9,170,493 at June 30, 2009, consist of investments in mutual funds. The assets under the District's 457 Plan are held in trust and are considered protected from the general creditors of the District.

**NOTE I - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. To protect the District from these risks, it is a member of a risk management program as discussed in Note L. The District carries commercial insurance to protect against the risk of errors and omissions. For each of the three most recent years, settlement of claims has not exceeded insurance coverage.

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE J - SELF-INSURANCE**

The District's self-insurance program commenced January 1, 1997 and covers medical, dental, and prescription drug benefits. All activity related to the self-insurance program is included in the Sewer and Water Enterprise Funds. Under the program, the District is obligated for claim payments up to \$65,000 per individual in 2009 with the exception of one individual for which the District is obligated for claim payments up to \$302,000. The District purchased a commercial excess insurance policy to cover claims that exceed \$65,000 per individual in 2009, up to a lifetime maximum of \$1,935,000 per individual. The policy also covers aggregate claims which exceed the greater of \$2,775,566 for the calendar year ending December 31, 2009 up to a maximum of \$1,000,000. For the years ended June 30, 2009 and 2008, approximately \$636,000 and \$367,000, respectively, was received for stop loss reimbursements. No settlements exceeded the excess insurance coverage for any of the past three years. This self-insurance program is for active employees and their dependents. The District has no financial or legal obligation to provide coverage to retired employees. The following represents changes in aggregate liabilities for the program during the years ended June 30:

	<u>2009</u>	<u>2008</u>
Unpaid claims and claim adjustment expenses at beginning of year:	\$ 330,785	\$ 87,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	1,829,318	2,268,417
Increase in provision for insured events of prior years	<u>146,982</u>	<u>66,669</u>
Total incurred claims and claim adjustment expenses	<u>1,976,300</u>	<u>2,335,086</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of:		
Current year	1,976,915	2,244,852
Prior years	<u>477,769</u>	<u>153,669</u>
Total payments	<u>2,454,684</u>	<u>2,398,521</u>
Claims reimbursed by excess insurance	<u>636,153</u>	<u>307,220</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 488,554</u>	<u>\$ 330,785</u>

The components of the unpaid claims liability was as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Claims reserves	\$ 407,968	\$ 261,522
Incurred but not reported claims	<u>80,586</u>	<u>69,263</u>
	<u>\$ 488,554</u>	<u>\$ 330,785</u>

**South Tahoe Public Utility District**

**NOTES TO THE FINANCIAL STATEMENTS – CONTINUED**

**June 30, 2009**

**NOTE K - COMMITMENTS AND CONTINGENCIES**

**1. Operating Leases**

The District leases an irrigation ditch for the distribution of recycled water. The term of the lease runs until December 2011 with semi-annual payments of \$3,085.

Annual lease expense is as follows:

Years ending June 30,	
2010	\$ 6,170
2011	6,170
2012	<u>1,055</u>
	<u>\$13,395</u>

The District leases a reservoir right of way from the Bureau of Land Management. This lease has no termination date. Annual lease expense is \$4,700.

The District leases waterline and wastewater disposal rights of way from the U.S. Forest Service. These leases have no termination date. Annual lease expense is \$22,354. This lease amount is calculated annually by the U.S. Forest Service.

**2. Contractual Obligations**

At June 30, 2009, the District's significant contractual commitments with outside firms for engineering, construction, consulting, and various other services totaled approximately \$6.9 million.

At June 30, 2009, the District's management was in negotiations with various contractors regarding change orders for work performed prior to year-end. Management has made estimates for amounts due at year end and has recorded them in accrued liabilities at year end.

**3. Contingencies**

Under the terms of federal and state grants, and under the provisions of the Single Audit Act of 1996, periodic audits are required and certain costs may be questioned as not being appropriate expenses under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. Management believes disallowances, if any, will be immaterial.

The District is also subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the District.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE L - JOINT POWERS AUTHORITY

The District is a member of a joint powers authority, California Sanitation Risk Management Authority (CSRMA), for the operation of a common risk management and insurance program. The program covers workers' compensation, property and liability insurance. The membership includes public wastewater agencies within California. A Board of Directors consisting of representatives from member agencies governs the Authority. The Authority's Board of Directors controls the operations of the CSRMA, including selection of management and approval of operating budgets.

The following is a summary of the most current audited financial information for California Sanitation Risk Management Authority as of June 30, 2009 (the most recent information available):

Total assets	\$29,209,412
Total liabilities	14,875,080
Net assets	14,334,332
Total revenues	12,240,643
Total expenses	9,191,106

If the District's deposits are not adequate to meet costs of claims and expenses, a retrospective adjustment to make up the difference, subject to minimum and maximum amounts, can take place. Coverage provided under the program has not changed and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

The District is also a member of a joint powers authority CAMP. CAMP provides professional investment services to California public agencies. Members of the authority can participate in the CAMP Cash Reserve Portfolio. The Authority is governed by a Board of Trustees, which is made up of experienced local government finance directors, treasurers, and school business officials. The Authority's Trustees control the operation of CAMP, including formation and implementation of its investment and operating policies.

The following is a summary of the most current audited financial information for CAMP Trust as of December 31, 2008 (the most recent information available):

Total assets	\$2,313,711,000
Total liabilities	28,403,000
Net assets	2,285,308,000
Net asset value per share	1
Total income	57,498,000
Total expenses	2,674,000
Net realized gain on investments	318,000
Net increase in net assets resulting from operations	55,142,000

Complete financial statements for CAMP can be obtained from the PFM Asset Management LLC at 50 California Street, Suite 2300, San Francisco, California 94111.

The relationships between South Tahoe Public Utility District and the joint powers authorities are such that CSRMA and CAMP are not component units of the District for financial reporting purposes.

South Tahoe Public Utility District

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2009

NOTE M - PROPERTY TAX REVENUE

Secured property taxes are attached as an enforceable lien and levied on property as of January 1<sup>st</sup>. Taxes are due in two installments, on or before December 10<sup>th</sup> and April 10<sup>th</sup>. The District recognizes property tax receivables on January 1<sup>st</sup> and defers revenue recognition until the period for which the property taxes are levied (July 1<sup>st</sup> through June 30<sup>th</sup>). Property tax revenue is derived from property tax assessments levied within the entire District. The Board of Directors is using these funds to subsidize the Sewer Enterprise Fund operations. The District relies upon the competency of the County of El Dorado for assessing the property tax and establishing a lien date, and for billing, collecting and distributing its share of the property tax revenue.

NOTE N - INVESTMENT EARNINGS

Investment earnings consist of the following for the year ended June 30, 2009:

Interest income	\$1,261,157
Realized and unrealized gains	<u>387,965</u>
	<u>\$1,649,122</u>

NOTE O - OTHER OPERATING EXPENSES

Other operating expenses are as follows for the year ended June 30, 2009:

Professional services	\$ 612,060
Insurance and un-reimbursed claims	378,296
Chemical supplies	363,913
Operating permits	276,205
Office expense	188,828
Travel, meetings and education	293,423
Petroleum products	186,092
Research and monitoring	68,095
Miscellaneous expense	<u>608,580</u>
Total other operating expenses	<u>\$2,975,492</u>



**COMPLIANCE SECTION**

**Independent Auditors' Comments on Status of Prior Year Recommendations**

None

**Current Year Recommendations**

None

**Report of Independent Certified Public Accountants on Internal Control over  
Financial Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Directors  
South Tahoe Public Utility District  
South Lake Tahoe, California

We have audited the financial statements of South Tahoe Public Utility District ("the District") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

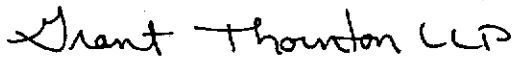
A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in the District's internal control over financial reporting. We did not identify any deficiencies in the District's internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As a part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the State of California, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Reno, Nevada  
November 12, 2009

**Report of Independent Certified Public Accountants on Compliance  
with Requirements Applicable to Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Directors  
South Tahoe Public Utility District  
South Lake Tahoe, California

**Compliance**

We have audited the compliance of South Tahoe Public Utility District ("the District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2009.

**Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control over compliance. Accordingly, we express no such opinion.

A control deficiency in the entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis with a type of compliance requirement of a federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in the District's internal control over compliance. We did not identify any deficiencies in the District's internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the State of California, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Grant Thornton LLP*

Reno, Nevada  
November 12, 2009

**South Tahoe Public Utility District**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2009**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<u>Department of Homeland Security</u>			
Pass-through: State of California Governor's Office of Emergency Services			
Public Assistance Grants	97.039	FEMA-1628-DR-CA, OES ID #017-91001	\$ 15,831
Hazard Mitigation Grant	97.039	FEMA-1689-DR-CA, OES ID #017-91001	75,000
<u>Environmental Protection Agency</u>			
Pass-through: State of California Department of Public Health			
Arrowhead Well Arsenic Treatment Project	66.468	* AR09FP39	593,310
Pass-through: State of California Water Resources Control Board			
Clean Water Act 319(h) Nonpoint Source Implementation	66.460	* 06-244-556-0	478,526
<u>Department of Agriculture</u>			
Lake Tahoe Erosion Control Grants	10.672	07-DG-11051900-028	37,085
Cooperative Fire Program	10.664	* 08-DG-11052012-170	<u>964,000</u>
Total expenditures of federal awards			<u>\$ 2,163,752</u>

\* Major program, as defined by OMB Circular A-133.

The accompanying note is an integral part of this statement.

**South Tahoe Public Utility District**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**June 30, 2009**

**NOTE A - REPORTING ENTITY**

The accompanying Schedule of Expenditures of Federal Awards includes the activity of federal financial assistance to the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

South Tahoe Public Utility District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor report issued unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor report issued on compliance for major programs. unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ yes ☒ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Environmental Protection Agency
66.460	Environmental Protection Agency
10.664	Department of Agriculture

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None